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CONTRACTOR LOGISTICS SUPPORT AND WARRANTIES

You can't fly an aircraft without two tails,
one of which stretches back to the prime.
Hangar philosophy

19.1 DEFINITIONS

- Contractor Logistics Support (CLS) is the performance of maintenance and/or material management functions for a DoD system by a commercial activity. It is DoD policy to maximize the use of long-term CLS in support concepts for new or modified systems. In addition to the three levels of maintenance (organizational, intermediate, and depot), support may include provisioning, management, distribution, or repair of system spares. Planning for CLS should be documented in the support plan for the item being acquired. Further, CLS can effectively be utilized to support depot field teams, low-surge workloads, small workloads, commercial off-the-shelf items, and short life cycle or rapidly obsolete items. Additionally, CLS should be considered for high-surge workloads that either involve unique processes for capabilities that cannot be established organically at reasonable cost or for any support factors that clearly demonstrate a potential for lower costs and/or increased readiness.

- Product Assurance Plan implements a product assurance program including Reliability, Availability, and Maintainability (RAM), quality hardware and software, and system assessment to ensure user satisfaction, mission and operational effectiveness, and performance to specified requirements.

- Warranty is a promise or affirmation given by a contractor to the government regarding the nature, usefulness, or condition of the supplies or performance of services furnished under a contract. Refer to Title 10 U.S.C. §2403 for the mandatory use of warranties in systems acquisition.

19.2 CONTRACTOR LOGISTICS SUPPORT (CLS)

19.2.1 The Benefits

The benefits of proper implementation of CLS follow.

- a reduction in the annual appropriated spares requirements, assuming that the CLS contract results in a reduction in pipeline spares;

- a reduction in the DoD infrastructure (e.g., manpower, spares, facilities, etc.) as the contractor assumes management and maintenance responsibilities;

- a long-term increase in component reliability at limited cost to the government, assuming the CLS contract incentives provide an appropriate profit motive for realized reliability growth; and

- assistance with the maintenance of the defense industrial base in times of tight defense budgets.

19.2.2 The Challenges

The implementation of a CLS contract is not without its challenges and constraints. The Logistics Manager (LM) should be aware of these challenges and make appropriate efforts to develop the support program around them. At least two of the challenges are derived from legislation and regulation:

- Legislation mandates that 60 percent of depot-level maintenance will be performed organically.

- The Federal Acquisition Regulations (FAR) and the budget processes restrict contract length. Currently, DoD is restricted to a contract length of one year, with four successive one-year options; the options can be exercised at the pleasure of the government. With the service life of many DoD systems reaching out to 30 years or more, this limitation adds an element of risk and uncertainty to the CLS approach.

Other considerations include providing for wartime surge demands, sufficient organic workload to maintain organic expertise, and appropriate levels of competition in contract awards. The LM must also cope with the effect of the contractor's learning curve when competition leads to a change of contractors.

19.2.3 Automated Tools

There are only a few automated tools to assist in the development or management of a CLS contract, and they are limited in availability and function. Currently the most popular tool in classroom use at DSMC is COMPASS, which is being revised as a Windows 95 compatible program. The Navy has a software package in use today, CAMMS, which displays status of assets undergoing repair at contractor facilities. CAMMS allows the item manager to maintain 100 percent visibility of commercial assets, as if they were being worked on at an organic site. Additionally, the Internet provides information regarding CLS.

19.2.4 Points of Contact

- ASC/XLXS (DSN 785-2553)
- HQ AFMC/D RMP (DSN 787-7280)
- OCALC/LK (DSN 336-5772)
- OOALC/LIR (DSN 777-4614)

19.2.5 References

- DoD 5000.2-R
- U.S. Air Force Instruction 21-102
- U.S. Army Regulation 700-12, Chapter 5
- *DoD Acquisition Deskbook*

19.3 WARRANTIES

19.3.1 Description

The principal purposes of a warranty in a government contract are to delineate contractor and government rights and obligations for defective items and services, and to foster quality performance. Generally, a warranty should provide the following:

- a contractual right for the correction of defects notwithstanding any other requirement of the contract pertaining to acceptance of the supplies or services by the government; and
- a stated period of time or use or the occurrence of a specified event after government acceptance when a contractual right for the correction of defects can be asserted.

The benefits to be derived from a warranty must be commensurate with the cost of the warranty to the government. In 1985, Congress established a requirement for express warranties in production contracts for systems that exceed a unit cost of $100,000 or $10 million total cost. The warranties address conformity to the design and manufacturing requirements, freedom from defects in materials and workmanship at the time of delivery, and conformity to " essential performance requirements" (such as operation capabilities and reliability). In effect, the warranty is an obligation on the part of the contractor to repair or replace equipment found defective or to compensate the government for repair performed by the government during the course of the warranty period.

The FAR and the Defense Federal Acquisition Regulations Supplement (DFARS) also provide policies and procedures for tailoring the required warranties to the circumstances of a particular procurement and for obtaining waivers when needed. For supplies and services that do not meet the definition of a system, such as spares and data, warranties may be used, if they meet or exceed the foregoing thresholds and are advantageous to the government. A warranty of technical data (extended liability) should normally be included in the solicitation and evaluated on its merits during source selection.

19.3.2 Guidelines

Warranties can offer unique opportunities to implement innovative cost and supportability solutions. Use of warranties should be included in risk management studies. Applications for logistics-oriented warranty considerations include these factors:

- Nondevelopmental Items (NDIs) and Commercial Items (CIs),
- increasing reliability in fielded systems,
- system complexity,
- projected system/equipment usage rates,
- reliability testing and results,
- cost benefit analyses,
- commercial repair, and
- CLS.

Warranties must be bilateral agreements between government and industry. For warranties to be successful, they must offer benefits to all parties involved.

The type of contract used to acquire spare parts or repair services limits the extent to which warranties can be used successfully. Warranties are normally applied to the fixed-price type of contracts. They are less appropriate for Fixed Price Incentive fee (FPIF) target contracts. The cost-sharing mechanism of FPIF contracts normally means that the government will incur a substantial portion of the costs associated with warranty repairs and correction of deficiencies. They should not be used in cost-reimbursable contracts since the government would pay for most, if not all, of the costs associated with the warranty. In such cases, incentive or award fee provisions should be used to provide profit incentives to obtain desired contractor performance.

Appendix E of the *DoD Flexible Sustainment Guide* (see Section 19.3.3 below) provides helpful guidance for the selection of appropriate types of warranties. It suggests warranty types that should be considered dependent upon whether contracting for spare

parts or repair services. Reliability Based Logistics (RBL) is a subject discussed in Chapter 26, Section 26.4, of this Guide. Certain criteria associated with RBL impact the type of warranty that should be used.

In designing or selecting the contract warranty clause, the LM should consider the following guidelines:

- Maximize the government's ability to use the warranty. Be sure to consider transportation and storage factors.

- Provide a mechanism for administering the warranty that imposes limited or no special reporting requirements on the user personnel, particularly at the organizational level.

- Avoid warranty clauses and procedures that will, when exercised, have an adverse impact on readiness. (An example would be excessive downtime while waiting for contractor replacement or repair of the warranted components.)

19.3.3 Reference and Point of Contact

DoD Flexible Sustainment Guide, 23 January 1997. Mr. Jerry Beck of NAVAIR is the point of contact; his telephone number is (301) 342-3838, ext. 188.